

Decision 03-12-063 December 18, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) for: Adoption of its 2003 and 2004 Energy Resource Recovery Account (ERRA) Forecast Revenue Requirements and Related Estimates, Approval of an Allocation Methodology for its 2003 Year-end ERRA Balance, and Approval of its 2003 ERRA Trigger Amount.

Application 03-06-002
(Filed June 2, 2003)

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for San Diego Gas & Electric Company, applicant.
Regina DeAngelis, Attorney at Law, for the Office of
Ratepayer Advocates.

**OPINION ON SAN DIEGO GAS & ELECTRIC COMPANY'S
ENERGY RESOURCE RECOVERY ACCOUNT**

I. Summary

This decision adopts a 2003 Energy Resource Recovery Account (ERRA) revenue requirement forecast of \$515.3 million and a 2004 ERRA revenue requirement forecast of \$282.6 million for San Diego Gas & Electric (SDG&E). Any 2003 year-end ERRA over-collected balance shall be allocated on a basis consistent with the method SDG&E allocated its 2002 year-end Purchased Electric Commodity Account (PECA) over-collected balance and any 2003 year-end under-collected balance shall remain in its ERRA. This decision

also sets SDG&E's 2003 ERRA trigger amount at \$21.419 million and threshold amount at \$26.773 million.

II. Background

SDG&E filed its ERRA application in response to Commission directives in Decision (D.) 02-10-062 and D.02-12-074. Those decisions established ratemaking mechanisms to enable California investor-owned electric utilities to resume purchasing electric energy, capacity, ancillary services, and related hedging instruments.

Decision 02-10-062 established an ERRA balancing account for the major energy utilities to track fuel and purchased power revenues against actual recorded costs.¹ This balancing account was modeled after the Energy Cost Adjustment Clause (ECAC) balancing account. That decision also required the major energy utilities to establish a fuel and purchased power revenue requirement forecast for 2003, a trigger mechanism, and a schedule for semiannual ERRA proceedings through an initial ERRA application.

Decision 02-12-074 modified and clarified the cost recovery mechanisms adopted in D.02-10-062. Those modifications and clarifications required the major utilities to amend their initial ERRA tariffs to, among other matters, identify the trigger and threshold amounts. In addition, D.02-12-074 established a June 1 and December 1 semiannual ERRA application schedule for SDG&E.

SDG&E's ERRA tariff provides for its June 1st ERRA application to address an energy resource forecast for the upcoming twelve months and a new ERRA rate based on that forecast. SDG&E is not requesting any rate change in this the

¹ Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and SDG&E were identified as the major energy utilities.

California Department of Water Resources (DWR) revenue requirement and the San Onofre Nuclear Generation Station (SONGS) non-fuel costs, are being addressed in separate proceedings.² The December 1st application will address the reasonableness of its ERRA, contract administration, energy resource expenses, and energy dispatch.

III. Discussion

By its initial ERRA application filed on June 2, 2003,³ SDG&E seeks approval of its 2003 and 2004 revenue requirement forecasts, a method for allocating any 2003 year-end ERRA balance, an ERRA trigger mechanism, and establishment of a Non-fuel Generation Balancing Account (NGBA).

A. Revenue Requirement Forecasts

SDG&E seeks approval of a 2003 ERRA revenue requirement forecast of \$515.3 million. That forecast was based on four-months recorded and eight-months forecasted fuel costs data related to its generation resources. Those generation resources include long-term power purchase contracts, SONGS, contracts with renewable generators, and anticipated market purchases. Details of SDG&E's 2003 revenue requirement forecast are set forth in the testimony attached to its application and in testimony placed under seal.

² The DWR revenue requirement will be addressed in an application filed later this year and the 2004 SONGS non-fuel costs are being litigated in SDG&E's Application (A.) 02-12-028 cost-of-service application and SCE's A.02-05-004 general rate case.

³ SDG&E filed its initial ERRA application on June 2nd, the first business day after the scheduled June 1st date because June 1st fell on a Sunday when the Commission offices are closed.

SDG&E also seeks approval of a 2004 ERRA revenue requirement forecast of \$282.6 million.⁴ SDG&E seeks approval of its 2004 forecast in this proceeding so that a new Schedule Electric Energy Commodity Cost (EECC) may be addressed at the beginning of 2004. Similar to its 2003 forecast, SDG&E's 2004 forecast was based on fuel cost related to its generation resources, the details of which were set forth in the testimony attached to its application and in the testimony placed under seal.

Although individual components of the revenue requirement forecasts are under seal, details of those components were made available to interested parties under a protective agreement.⁵ All information placed under seal should remain sealed for a period of two years from the date of a final order in this proceeding, and during that period should not be made accessible or disclosed to anyone other than Commission staff except on the execution of a mutually acceptable protective agreement.

The Office of Ratepayer Advocates (ORA) scrutinized SDG&E's testimony attached to the application. Based on that scrutiny, it does not take exception to SDG&E's forecast method or results. There is no opposition to SDG&E's ERRA forecasts. We concur and adopt SDG&E's ERRA revenue requirement forecasts of \$515.3 million for 2003 and \$282.6 million for 2004.

⁴ This is approximately \$ 96 million lower than the \$378.7 million SDG&E requested in its application. This difference is due to SDG&E's subsequent exclusion of SONGS non-fuel costs from its 2004 forecast.

⁵ Information deemed commercially sensitive and proprietary was placed under seal pursuant to a July 30, 2003 Administrative Law Judge ruling.

B. Year-End ERRA Allocation Method

SDG&E seeks authority to transfer 70% of any 2003 over-collected ERRA balance to its Transition Cost Balancing Account (TCBA), AB 265 under-collection, and retain the 30% balance in its ERRA, similar to the treatment of its 2002 year-end PECA over-collected balance.⁶ In the event there is a 2003 year-end under-collected balance, SDG&E seeks authority to carry forward that balance in its ERRA to 2004.

Currently, SDG&E estimates that its ERRA will have an \$26.1 million over-collected balance at December 31, 2003, the details of which are set forth in Attachment B of its sealed testimony. Based on SDG&E's proposal and assuming that there is a \$26.1 million over-collected balance by 2003 year-end, approximately \$18 million (70%) would be transferred to its TCBA and the remaining \$8.1 million (30%) would remain in its ERRA.

ORA has also scrutinized SDG&E's 2003 over- and under-collected balance proposal and calculations attached to the application. Based on that scrutiny, it does not take exception to SDG&E's proposal for treating its 2003 year-end ERRA balance. There is no opposition to SDG&E's ERRA balance allocation.

SDG&E should be authorized to allocate any 2003 year-end ERRA over-collected balance consistent with the treatment of its 2002 year-end PECA over-collected balance treatment and retain any under-collected balance in its ERRA account.

⁶ D.02-12-064, mimeo at 80 (Ordering Paragraph Number 8) and SDG&E Advice Letter 1451-E, approved December 17, 2002.

C. Trigger Mechanism

In D.02-10-062, the Commission required SDG&E to establish a trigger mechanism whereby over and under-collections would not surpass 5% of the prior year's generation revenue. This trigger mechanism is not to be used to refund over-collections until the ERRA has been in operation for a full year.

To implement timely rate adjustments when appropriate, SDG&E is required to file an expedited application for approval 60 days from the filing date when its ERRA balance reaches (triggers) 4% of the prior year's recorded generation revenues, excluding revenues collected for the DWR. SDG&E's trigger amount for 2003 is \$21.419 million based on its 2002 recorded generation revenues of \$535.463 million.

Expedited applications are required to include a projected account balance for a period of 60 days or more from the date of filing depending on when the balance will reach the 5% threshold. SDG&E's threshold amount for 2003 is \$26.773 million, based on its 2002 recorded generation revenues.

There is no dispute on the 2003 trigger and threshold amounts calculated by SDG&E. SDG&E's 2003 trigger amount shall be set at \$21.419 million and its threshold amount at \$26.773 million.

SDG&E's ERRA tariff should be modified to incorporate the trigger and threshold amounts being adopted in this proceeding. Further, the trigger and threshold amounts identified in its tariff should be modified yearly through an Advice Letter filing. That yearly Advice Letter should be filed on February 1st.⁷

⁷ If the first of February falls on a Saturday, Sunday, or holiday when the Commission offices are closed, the filing date is extended to include the first day thereafter. The February 1st date is consistent with the date set for PG&E to update its trigger and

Footnote continued on next page

The purpose of these recommendations is to standardize the ERRA process amongst the major utilities. However, these recommendations have not been addressed in this proceeding and SDG&E has not had an opportunity to provide comment. Rather than keeping this proceeding open to obtain SDG&E's comment on these recommendations and delaying approval of its 2004 ERRA revenue requirement forecast beyond January 1, 2004, SDG&E will not be required to undertake these actions at this time. However, we strongly encourage SDGE to adopt these recommendations on its own initiative.

D. Non-fuel Generation Balancing Account

SONGS fuel and non-fuel related costs⁸ are currently included in SDG&E's Incremental Cost Incentive Pricing (ICIP) mechanism, a component of its Schedule Electric Energy Commodity Charge (Schedule EECC). SDG&E included all SONGS costs in its 2003 ERRA forecast because those costs are includable components of the ICIP mechanism. However, the ICIP mechanism terminates on December 31, 2003 creating an uncertainty as to the recovery of 2004 SONGS costs through the ERRA.

SDG&E's SONGS fuel costs are not being litigated in a separate proceeding. It's SONGS non-fuel costs are currently being litigated in its cost of service (COS) A.02-12-028 and in SCE's general rate case (GRC) A.02-05-004. A decision in those applications is not scheduled to be issued until at least mid-2004. Absent a recovery mechanism beginning January 1, 2004, SDG&E will

threshold amounts as set forth in D.03-10-059 and recommended for SEC in A.03-04-022.

⁸ Non-fuel related costs include operating and maintenance costs, capital-related costs, nuclear insurance and property taxes.

not have an opportunity to recover these costs until decisions are issued in A.02-12-028 and A.02-05-004.

SDG&E initially included all of its SONGS costs in its 2004 ERRRA forecast. It included fuel costs on the basis that those costs meet the fuel and purchased power costs definition for inclusion in the ERRRA. It included non-fuel costs on the basis that such costs are a type of power procurement-related costs.

ORA concurs with SDG&E that SONGS fuel costs should be included in the ERRRA. However, ORA protests SDG&E's inclusion of SONGS non-fuel costs in its 2004 ERRRA forecast, stating that only fuel costs should be included. Subsequent to that objection, SDG&E filed supplemental testimony on October 17, 2003 recommending that a NGBA be established for recovering its SONGS non-fuel costs beginning January 1, 2004 and continuing until a decision has been reached in both SDG&E's COS and SCE's GRC. SDG&E also withdrew its initial SONGS non-fuel costs proposal.

SDG&E proposes that the following procedure be used for its NGBA, the details of which are set forth in Attachment A of its supplemental testimony. On a monthly basis, SDG&E will record 1/12 of its SONGS non-fuel costs proposed in its COS and SCE's GRC beginning January 1, 2004 to its NGBA. In addition, each month SDG&E will apply an amount from the revenue generated from its Schedule EECC rate to recover the SONGS non-fuel costs recorded in the NGBA. SONGS non-fuel costs flowing to the NGBA in this interim period will be trued-up when a decision is reached in the SDG&E COS and SCE GRC.

ORA concurs with SDG&E's revised proposal and has withdrawn its protest. SDG&E's NGBA should be adopted so that it may have an opportunity to recover its SONGS non-fuel costs.

IV. Procedural Matters

By Resolution ALJ 176-3115, dated June 19, 2003, the Commission preliminarily designated the captioned application as “ratesetting” with hearings indicated. Notice of the application appeared in the Commission’s June 10, 2003, Daily Calendar. Since there is no objection to the ratesetting categorization of this proceeding, we affirm that this is a ratesetting proceeding.

On July 1, 2003, ORA filed a protest to the application because SDG&E included SONGS non-energy costs in its 2004 ERRR revenue requirement forecast. ORA protested on the basis that D.02-10-062 did not authorize SDG&E to include non-fuel costs in its ERRR. ORA did not dispute any of SDG&E’s other forecast assumptions or any of its other proposals set forth in the ERRR application.

A Prehearing Conference (PHC) held on August 14, 2003 was continued to September 24, 2003. At the continued PHC, SDG&E identified supplemental testimony it intended to introduce in this proceeding. That supplemental testimony proposed that SONGS nonfuel costs be recorded in the NGBA and taken out of its 2004 ERRR revenue requirement forecast. As discussed above, ORA, has withdrawn its protest.

This matter is now uncontested and hearings are not necessary. The assigned ALJ required SDG&E and ORA to file a joint brief to place SDG&E’s supplemental testimony in the record and to obtain information on the merits and reasonableness of including the NGBA proposal in this proceeding. That joint brief was filed on October 17, 2003. This matter was submitted on October 27, 2003.

V. Comment Period

This is an uncontested matter in which the decision grants the relief requested. Therefore, the otherwise applicable 30-day period for public review and comment is being waived pursuant to Pub. Util. Code §311(g)(2).

VI. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Michael J. Galvin is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. SDG&E's application was filed in response to the Commission's directives in D.02-10-062 and D.02-12-074.
2. There is no opposition to this application.
3. SDG&E's tariff provides for a June 1st ERRA application to address an energy resource forecast for the upcoming twelve months and a new ERRA rate based on that forecast.
4. SDG&E's tariff provides for a December 1st ERRA application to address the reasonableness of its ERRA, contract administration, energy resource expenses, and energy dispatch.
5. The inputs used to derive SDG&E's 2003 and 2004 forecasts are based on its load forecast, the forecast of resources to meet its load, and the costs of the various resources.
6. Details of SDG&E's 2003 and 2004 revenue requirement forecasts are set forth in the testimony attached to its application and testimony placed under seal.
7. D.02-10-062 requires the establishment of an ERRA trigger mechanism with a 4% trigger and 5% threshold amount to be set each year based on SDG&E's prior year's actual energy usage.

Conclusions of Law

1. The application should be granted to the extent addressed in the body of this order.
2. Information placed under seal should remain sealed because, if disclosed, it would provide competitors an insight to SDG&E's energy procurement strategy and place SDG&E and its ratepayers at a disadvantage in seeking future energy contracts.
3. This decision should be effective immediately so that SDG&E's ERRA can be implemented expeditiously.

O R D E R

IT IS ORDERED that:

1. The 2003 and 2004 Energy Resource Recovery Account (ERRA) forecasts of San Diego Gas & Electric Company (SDG&E) regarding its load, the resources available to meet its load, fuel costs, and costs for the various resources are adopted.
2. All information placed under seal shall remain sealed for a period of two-years from the effective date of this order except upon the execution of a mutually acceptable nondisclosure agreement or on further order or ruling of the Commission or the Administrative Law Judge then designated as the Law and Motion Judge. If SDG&E believes that further protection of sealed information is needed beyond two years after the effective date of this order, it may file a motion stating the justification for further withholding of the sealed information from public inspection, or for such other relief as the Commission may provide. This motion shall be filed no later than 30 days before the expiration of this ordering paragraph.

3. SDG&E's 2003 ERRRA revenue requirement shall be \$515.3 million and its 2004 ERRRA revenue requirement shall be \$282.6 million.

4. SDG&E shall use the same method to allocate any 2003 year-end ERRRA over-collected balance that it used to allocate its 2002 year-end Purchased Electric Commodity Account over-collected balance and any shall retain in its ERRRA any 2003 under-collected balance.

5. SDG&E's 2003 trigger amount shall be set at \$21.419 million and threshold amount at \$26.773 million until further adjustment as provided by a subsequent ERRRA application or Advice Letter filing. SDG&E is encouraged to include these annual trigger and threshold amounts in its ERRRA tariff.

6. SDG&E is encouraged to file a yearly Advice Letter on February 1st to update its ERRRA trigger and threshold amounts as set forth in the body of this order. If the first day of February falls on a Saturday, Sunday, or Commission holiday, the date shall be extended to the first day thereafter.

7. Effective January 1, 2004 SDG&E shall establish a Non-Fuel Generation Balancing Account (NGBA) to record San Onofre Nuclear Generation Station Non-fuel costs as addressed in the body of this order and proposed in SDG&E's supplemental testimony.

8. Application 03-06-002 is closed.

This order is effective today.

Dated December 18, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH

GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners